WHO BENEFITS?

An Investigation of Foreign Ownership in the Oil Sands

environmental defence

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EXECUTIVE SUMMARY

Most (70%) oil sands production is owned by foreign companies and shareholders, who enjoy the majority of record profits, especially when oil prices are low. Foreign controlled operational profit doubled from 31.6 to 58.4% between 2012 and 2016, 3.5 times the economy-wide average.

The profit rate of the Big Five oil sands companies— Suncor, CNRL, Cenovus, Imperial Oil and Husky Energy— through the first three quarters of 2019 **was 14.2%, almost double the Canadian industry average.**

This allowed the Big Five to transfer $8 billion to their mostly foreign shareholders in the first three quarters of 2019, which almost puts them on pace to match their 2018 total of $11.34 billion. In 2018, the Big Five transferred $6.97 billion to various levels of government in the form of taxes, fees, and royalties.

Despite record profits, hefty dividends to shareholders and skyrocketing pay raises for oil company CEOs, subsidies for **Canada's already heavily subsidized oil industry have increased by billions of dollars over the last five years.**

Despite increasing oil production, technological improvements, modularization of construction and an estimated 58% decrease in capital spending from 2014 through 2019 **led to the termination of 53,000 jobs in the Canadian oil and gas industry, jobs that are never coming back.**

Reclamation of the oil sands, conventional oil and gas wells, and pipelines in Alberta will cost an estimated $260 billion and take as many as 3000 years to complete. Past experience and growing market risks make it increasing likely that future taxpayers will have to foot the bill.

A recent poll indicates that the vast majority of Albertans agree that there is a better way forward. **Almost 80% of Albertans believe the province should transition toward renewable energy,** and more than 90% think the government needs to do more to encourage the technology sector. Perhaps most surprising, a majority wants to transition away from oil and gas.

Methodology

This report is based on data from Statistics Canada, oil companies' annual and quarterly reports and data obtained from Bloomberg terminal.

Recommendations

While we need to acknowledge and address the tragic consequences of the COVID-19 pandemic, it's also clear that the unprecedented public investment needed to rebuild the Canadian and Alberta economies is a **once-in-a-generation opportunity to position Canada to compete and prosper in the twenty-first century economy.**

Government policy, including stimulus money and industry bailouts, should invest in the future, not the past. This includes supporting unemployed oil and gas and other Canadian workers and investing in a diversified, clean-energy economy that will provide employment opportunities and public services in the long-term.

Canada cannot achieve net-zero by 2050 while supporting increased production of oil and gas. **Future stimulus must support industries and projects that decrease greenhouse gas emissions, increase economic diversification and provide workers with retraining opportunities.**

> **"I keep trying to see who the beneficiaries are.... It is not the people of the province, because they are not getting the royalty return that they should be getting.**
>
> ***Premier Peter Lougheed*[1]**

INTRODUCTION

The global COVID-19 pandemic has devastated the global economy and plunged the price of oil to record lows. By April 19, the price of Western Canada Select, Alberta's benchmark crude, went negative for the first time ever, and is at the time of writing selling at $4.23/barrel on the futures market.[2] As a result, oil sands companies have begun cutting dividends and spending, and analysts expect production to be curtailed by as much as 25%, potentially causing permanent damage to reservoirs and jeopardizing billions of dollars in assets.[3]

Even before the world was turned upside down by the first global pandemic in a century, the oil and gas industry in Canada – despite rising production levels – was cutting jobs and paying less in royalties while demanding higher and higher subsidies. For many years, industry lobbyists and spokespeople have argued that increased support and greater subsidies were fair because we all benefit from the oil and gas industry. While Canada has enjoyed many benefits of the oil and gas industry, this investigation reveals that **the majority of profits from the industry are leaving the country.** Simultaneously, other studies have revealed that **the majority of liabilities, now estimated at $260 billion and rising, are not only staying in the country but are falling to the taxpayers** as companies abandon wells and tailings ponds leak into our rivers and waterways.

Canada's and Alberta's long-term interests are not being served by governments that prioritize the profits of foreign-owned corporations and the interests of their shareholders ahead of the long-term interests of Canada's workers, environment and economy.

At a time when every corner of the Canadian economy is reeling from the disruption caused by the COVID-19 pandemic and the country struggles to reign in rising greenhouse gas emissions from the oil and gas sector, it's important that we understand who benefits from the expansion of the oil and gas industry in Canada and who is left footing the bill for clean up.

[1] https://thetyee.ca/Opinion/2012/09/17/Radical-Peter-Lougheed/
[2] https://oilprice.com/oil-price-charts/
[3] "Canada cuts steam-driven oil projects, risking permanent damage." Reuters, April 19, 2020. https://www.reuters.com/article/global-oil-canada/canada-cuts-steam-driven-oil-projects-risking-permanent-damage-idUSL1N2C4050

Majority of the Oil Sands is Foreign Owned

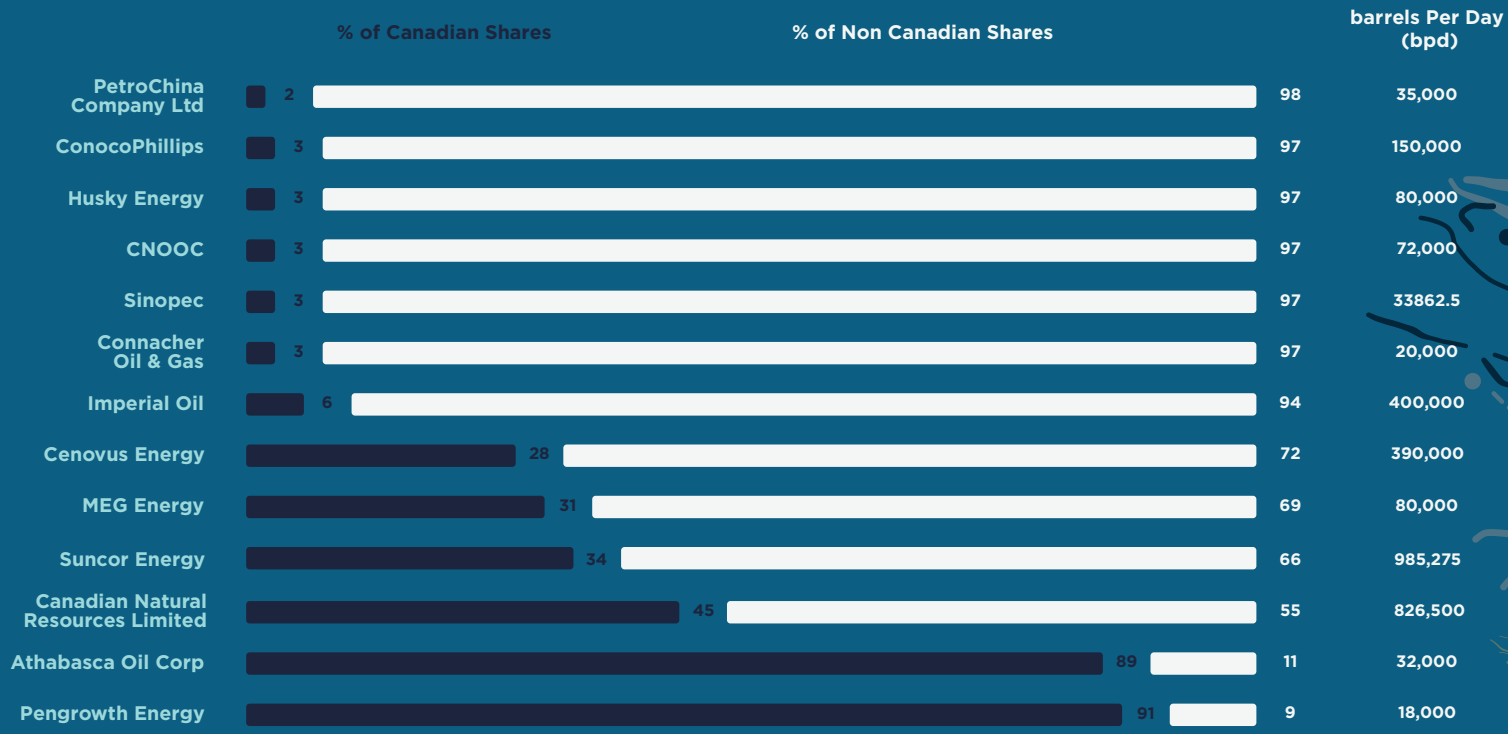
Most oil sands production is not owned by Canadians.

Ten of the 14 publicly traded companies invested in the oil sands are headquartered in Canada, but only two of those are majority owned by Canadians: Athabasca Oil Corporation (89%) and Pengrowth Energy (91%). Together they account for just 1.5% (50,000 bpd) of oil sands production. Average Canadian ownership of the other eight "Canadian" companies is just 18.8%. [4]

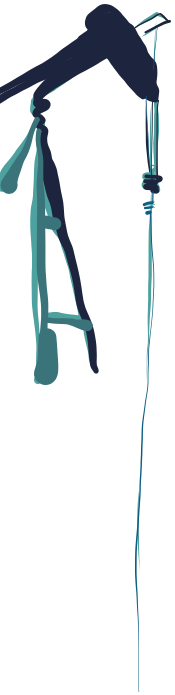
Although several major international oil companies (IOCs) have pulled $30 billion out of the oil sands over the last five years, foreign ownership of oil sands production still tops 70%. This is because of increased investment by Chinese national oil companies, which now control 5.2% of oil sands production, 3.5 times more than majority Canadian-owned companies.

American interests own more than 52% of oil sands production, more than twice Canadian shareholders and more than all other non-US investors combined. If any one group is calling the shots in Alberta and profiting from the rapid liquidation of our bitumen, it's American investors.

WHO IS BENEFITING?



[4]Data from Statistics Canada, "Foreign-controlled enterprises in Canada": https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3310003301



WHO IS BENEFITING?

Foreign Investers Enjoy Record Profits

Foreign shareholders own almost half (44%) of the $645 billion in oil sands assets, 2.7 times the economy-wide average. While Canadian control of total operating revenues has increased from 51.5% in 2012 to 59.9% in 2016, the percentage of total operational profit has decreased from 68.4% to 41.6% over the same period. At the same time, foreign controlled operational profit has nearly doubled, from 31.6% in 2012 to 58.4% in 2016—3.5 times the economy-wide average. Which means more and more of the profit is being sent out of Canada.

photo by GARTH LENZ

Extraordinary Profits for the Big Foreign Five

A small number of large, integrated oil companies dominate oil sands production and upgrading. **In early 2019, the Big Five—Suncor, CNRL, Cenovus, Imperial Oil and Husky Energy—were all majority owned by foreign investors. Together, they control approximately 60% of bitumen production and 90% of bitumen upgrading capacity.[5]**

Through the end of September 2019, the Big Five's aggregate revenue was $105 billion, on pace to match their 2018 annual total of $140 billion by the end of the year; their aggregate net earnings were $15 billion, more than double their entire 2018 total, and their assets were worth more than $286 billion, almost as much as Alberta's average annual gross domestic product (about $300 billion).

The average profit rate for the Big Five through the first three quarters of 2019 was 14.2 percent, with Suncor and CNRL earning profits of 17.8%, and 26.7%, respectively. The average profit margin for all industries in Canada in 2016 was 7.8%, which makes these firms extraordinarily profitable.

This allowed the Big Five to transfer $8 billion to their mostly foreign shareholders in the first three quarters of 2019, which almost puts them on pace to match their 2018 total of $11.34 billion. By comparison, in 2018, the Big Five transferred $6.97 billion to various levels of government in the form of taxes, fees, and royalties.

[5]Data on the Big Five was sourced from their 2018 annual reports, 2019 third quarter reports and each firm's annual Extractive Sector Transparency Measures Act (ESTMA) disclosures.

WHO IS BENEFITING?

Increasing Subsidies Fuel Record Profits

Despite record profits, increasing dividends to shareholders, and skyrocketing pay raises for oil company CEOs,[6] subsidies for Canada's oil industry have continued to increase.

In 2014, the last time the Saudis and their OPEC partners increased production and brought the global price of oil to below US$50/barrel, Canadian and Alberta governments responded by increasing subsidies, tax breaks and handouts for the oil sector. This is an industry that was already subsidized to the total of $3.3 billion a year by Canadian taxpayers.

When oil prices fell again, in 2016 and 2018, the federal government not only gave Alberta oil producers a $1.6-billion bailout package, they also spent $4.5 billion buying the Trans Mountain pipeline, an expansion project now estimated to cost taxpayers over $16 billion.

In 2019, amid a budget crisis for the ages, the Alberta government reduced its corporate tax rate from 12 to 8%, a boon that will reward the Big Five oil sands companies a $4.3 billion through 2022.[7]

photo by GARTH LENZ

[6]"Canada's biggest energy companies raised executive pay and bonuses in 2019." Globe and Mail, April 10, 2020. https://www.theglobeandmail.com/business/article-canadas-biggest-energy-companies-raised-executive-pay-and-bonuses-in/

[7]Data from companies' second quarterly in 2019, as reported by Press Progress: https://pressprogress.ca/ucps-corporate-tax-cut-likely-to-let-five-companies-alone-reduce-public-revenues-4-3-billion/

WHO DOESN'T BENEFIT?

The Alberta Workforce

The economic downturn could see unemployment in Alberta reach as high as 25%, but the crisis was well underway before the COVID-19 crisis began.

The oil and gas industry is one of the most capital intensive sectors in the world. While well-paid employment opportunities skyrocketed during the oil sands' growth phase (2000-2018), there will be far fewer jobs available in the future.[8]

However, technological improvements, modularization of construction and an estimated 58% decrease in capital spending from 2014 through 2019 **led to the termination of 53,000 jobs in the Canadian oil and gas industry.** Because overall productivity per employee has increased dramatically, **these lost jobs are not coming back.**[9]

Even the Alberta government tax cuts haven't halted the shedding of oil industry jobs. Soon after receiving $233 million from the tax breaks, Husky Energy laid off hundreds of workers; Encana, a Canadian fossil fuel giant, took a $55 million cut from Premier Kenney before relocating to the United States.

[8]Based on data from Petroleum Labour Market Information: https://careersinoilandgas.com/what-is-lmi/labour-outlook/

[9]Hussey, Ian. "THe Future of Alberta's OIl Sands Industry." 2019. Parkland Institute. https://www.parklandinstitute.ca/the_future_of_albertas_oil_sands_industry.

[10]Rob Wadsworth, vice-president of closure and liability, Alberta Energy Regulator, as reported widely in November 2019.

[11]Ibid.

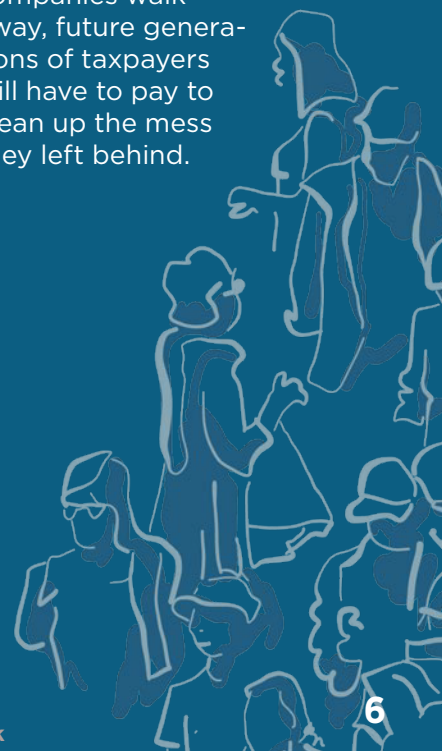
[12]"Orphan wells cleanup funding 'a subsidy to industry,' says Alberta farmer." CBC. April 17, 2020. https://www.cbc.ca/radio/asithappens/as-it-happens-friday-edition-1.5536035/orphan-wells-cleanup-funding-a-subsidy-to-industry-says-alberta-farmer-1.5536478.

Future Generations of Taxpayers

Numerous financial experts have warned that international action on climate change, ever-cheaper clean-energy alternatives, and increasing market risks for dirty hydrocarbons will soon turn once profitable energy projects into stranded assets that could leave behind billions of dollars in environmental liabilities.

Reclamation of the oil sands, conventional oil and gas wells and pipelines in Alberta will cost **an estimated $260 billion and take as many as 3000 years to complete, $200 billion more than what has been publicly acknowledged.**[10]Cleaning up the mess left behind in the oil sands, including some of the largest tailings ponds in the world, accounts for half this cost.

Alberta has collected only $1.6 billion in security funds because of a deeply flawed system for monitoring liabilities,[11] and Premier Kenney just provided an additional $100 million loan to the Alberta Orphan Well Association, which now totals $335 million. In a bid to employ laid-off workers, clean up orphaned wells, and reduce methane emissions, the federal government recently announced what amounts to a further $2.4 billion subsidy to the oil and gas industry,[12] more evidence that once foreign oil companies walk away, future generations of taxpayers will have to pay to clean up the mess they left behind.



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CONCLUSION:

The Oil Sands are no longer in our National Interest.

Alberta's oil and gas industry has always been a roller coaster, but its future is more uncertain than ever. Even before the COVID-19 pandemic disrupted the global economy, twenty-first century market forces were enticing an increasing number of corporations, investment funds and insurance companies to pull out of the oil sands, and the Big Five was squeezing costs and slowing down investment. A growing number of energy analysts agree that the current economic crisis will permanently reshape the Alberta economy.

In response, the Alberta government continues to ignore the market realities of a warming world by propping up the oil industry with policies that reward foreign-owned oil companies and foreign investors and demonize citizens who advocate for a better long-term future based on clean energy, responsible climate policy, and greater support for unemployed workers.

It's time to stop prioritizing the profits of foreign-owned corporations and the interests of their shareholders ahead of the long-term health of Alberta's and Canada's workforce, environment and economy. While we need to acknowledge and address the tragic consequences of the COVID-19 pandemic, it's also clear that the unprecedented public investment needed to rebuild the Canadian and Alberta economies is a once-in-a-generation opportunity to position Canada to compete and prosper in the twenty-first century economy.

Government policy, including stimulus money and industry bailouts, should invest in the future, not the past. This includes supporting unemployed oil and gas and other Canadian workers and investing in a diversified, clean-energy economy that will provide employment opportunities and public services in the long-term. Canada cannot achieve net-zero by 2050 while supporting increased production of oil and gas. Future stimulus must continue to support industries and projects that decrease greenhouse gas emissions, increase economic diversification and provide workers with retraining opportunities.

A recent poll indicates that the vast majority of Albertans agree there is a better way.

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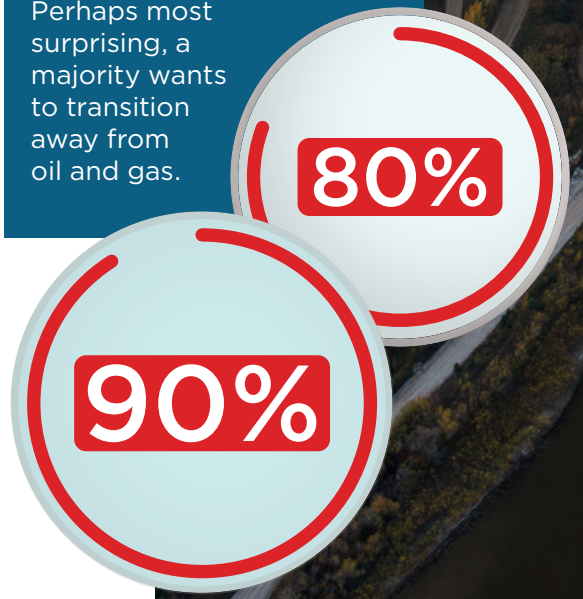

photo by **GARTH LENZ**

[13]"CBC News poll: Why the economic crisis could speed up transition to renewable energy." CBC, April 16, 2020. https://www.cbc.ca/news/canada/calgary/cbc-news-poll-energy-transition-support-1.5533036

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